

Nippon Life India Asset Management Ltd.

26th Apr 2023

Focus on granular AUM continues

Nippon Life India AMC (NAM) has maintained its industry ranking at 4th position (on a QAAUM basis) during the quarter. NAM's AUM remained flat sequentially and grew by 3.5% YoY. Revenue growth for the quarter (3.1% YoY) has been in line with AUM growth as yields have stabilized. Other income has declined sequentially by 36% due to MTM losses on investment book.

Yields to stabilise going forward

NAM maintained its yields sequentially around ~48 Bps in Q4FY23. These Yields are likely to be maintained on account of a) an increase in equity mix in total AUM from ~42% to ~45%, b) Improved realization from debt & ETF schemes, and c) increasing flows from B-30 cities. According to the management, these structural changes and yields are likely to sustain going forward.

NAM growing on the back of granular AUM growth

NAM continues to focus on granular and sticky AUM growth, with retail & HNI investor's combined contributions to the overall AUM mix rising from 49.7% in Q4FY22 to 55.5% in Q4FY23. The Company has one of the largest unique investor base at 13.5 Mn. Share from B-30 cities, which tend to have higher equity concentration, is at 19% vis-à-vis 17% for the industry.

View & Valuation

We have revised our view on account of lower than expected growth and headwinds on debt AUM growth but maintained a BUY rating on Nippon Life India Asset Management Ltd, we revise our target to Rs. 299 (~23x FY24 Core earnings). At the current valuations, the market is expecting NAM to lose market share or grow at a slower pace than the industry. Based on the enhancement in market share in the last few quarters and a massive improvement in scheme performance, we think NAM is at a pivot point. Going ahead, we expect NAM to grow at least in line with the industry.

BUY

CMP Rs. 237

TARGET Rs. 299 (+27%)

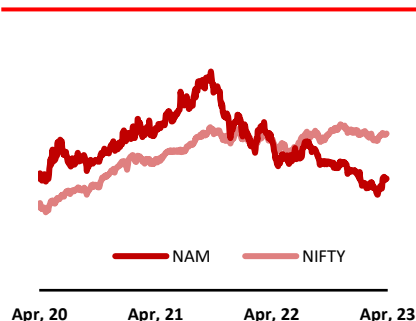
Company Data

MCAP (Rs. Mn)	1,46,727
O/S Shares (Mn)	623
52w High/Low	335 / 197
Face Value (in Rs.)	10
Liquidity (3M) (Rs. Mn)	111

Shareholding Pattern %

	Mar '23	Dec '22	Sep '22
Promoters	73.7	73.7	73.7
FII's	5.0	5.8	6.4
DII's	9.4	9.1	9.1
Non-Institutional	12.0	11.5	10.8

NAM vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY22	FY23	FY24E
Revenue	13,066	13,498	15,202
EBITDA	7,902	7,947	9,389
Net Profit	7,442	7,229	8,063
Total Assets	37,965	38,449	39,031
ROCE (%)	24%	22%	23%
ROE (%)	23%	21%	23%

Source: Company, Keynote Capitals Ltd Estimates

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Nippon Life India Asset | Quarterly Update

Q4FY23 Result Update

Result Highlights (Rs. Mn)

Particulars	Q4FY23	Q4FY22	Change % (Y-o-Y)	Q3FY23	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
QAAUM	2,931,587	2,832,610	3.5%	2,928,026	0.1%	2,876,117	2,674,213	8%
Yield	48	48	0 Bps	49	-1 Bps	47	49	-2 Bps
Revenue	3,483	3,380	3%	3,538	-2%	13,498	13,066	3%
Employee Cost	712	745	-5%	747	-5%	3004	2903	3%
Other Opex	683	555	23%	659	4%	2,547	2,256	13%
EBITDA	2,088	2,079	0%	2,133	-2%	7,947	7,907	1%
EBITDA %	60%	62%	-156 Bps	60%	-33 Bps	59%	61%	-164 Bps
Depreciation	82	69	18%	77	5%	298	272	9%
EBIT	2,007	2,010	0%	2,055	-2%	7,649	7,635	0%
EBIT %	58%	59%	-187 Bps	58%	-48 Bps	57%	58%	-176 Bps
Finance Cost	12	11	5%	11	7%	40	38	4%
Other Income	397	345	15%	619	-36%	1,668	2,290	-27%
PBT	2,392	2,344	2%	2,664	-10%	9,277	9,887	-6%
Tax	415	595	-30%	616	-33%	2048	2453	-17%
PAT	1,977	1,748	13%	2,048	-3%	7,229	7,434	-3%
EPS	3.2	2.8	13%	3.3	-3%	11.6	12.0	-3%

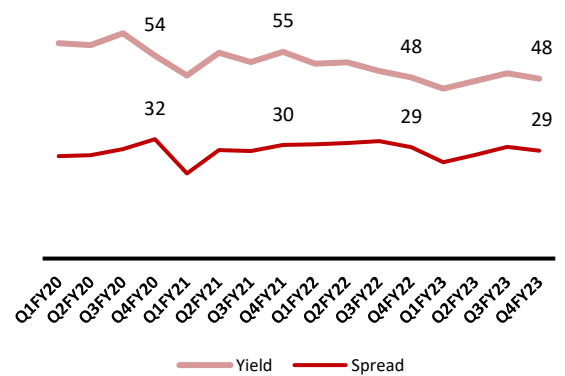
Source: Company, Keynote Capitals Ltd.

Operating Metrics (Rs. Mn)

Particulars	Q4 FY23	Q4 FY22	Change % (Y-o-Y)	Q3 FY23	Change % (Q-o-Q)
QAAUM Mix					
Equity	13,27,584	11,93,113	11%	13,18,769	1%
ETF	7,00,244	5,57,964	25%	6,82,902	3%
Debt	4,03,632	6,41,357	-37%	4,17,689	-3%
Liquid	5,00,127	4,40,176	14%	5,08,664	-2%
QAAUM Mix (%)					
Equity	45%	42%	316 Bps	45%	25 Bps
ETF	24%	20%	419 Bps	23%	56 Bps
Debt	14%	23%	-887 Bps	14%	-50 Bps
Liquid	17%	16%	152 Bps	17%	-31 Bps
Channel Mix (%)					
Direct	54%	56%	-157 Bps	53%	110 Bps
Non Associate Distributors	46%	44%	157 Bps	47%	-110 Bps
Associate Distributors	0%	0%	0 Bps	0%	0 Bps
Geographical Spread (%)					
T30	81%	83%	-180 Bps	81%	18 Bps
B30	19%	17%	180 Bps	19%	-18 Bps
Investor Mix (%)					
Retail Investor	29.1%	27.5%	164 Bps	29.9%	-72 Bps
High Network Individuals	26.4%	22.2%	419 Bps	25.5%	92 Bps
FIs/FPis	0%	0%	1 Bps	0%	-1 Bps
Corporates	43%	48%	-529 Bps	43%	-27 Bps
Banks/FIs	1%	2%	-55 Bps	1%	8 Bps

Source: Company, Keynote Capitals Ltd.

Yield and Spread (%)



Source: Company, Keynote Capitals Ltd.

Nippon Life India Asset | Quarterly Update

Q4 FY23 & FY23 Conference Call Takeaways

Yields

- Yields have declined by 2 bps in FY23 compared to FY22, but pace of decline has moderated largely due to a) improving equity mix (increased from 42.1% in FY22 to 45.3% in FY23), b) replacement of old, high yielding assets to new assets has largely been completed and c) competitive intensity in payout to distributors has reduced.
- The improvement in the performance of debt schemes has resulted in a corresponding increase in the yield from debt funds. As a consequence, the asset management companies (AMCs) are now able to charge higher yield.
- Company earns a yield of 70-80 Bps on equity AUM, 23-30 bps on debt AUM and 15-20 bps on liquid AUM.
- The Company earns a yield of 9-10 bps on ETF products. It continues to work on ETF products where more value addition and margin accretion are possible.

Mutual Fund AUM

- MF QAAUM for Q4 FY23 stood at Rs. 2,931 Bn with 0.1% QoQ growth and 3.5% YoY growth while maintaining its market share at 7.2% and holding the position of fourth largest AMC.
- NAM's systematic book stood at Rs. 134 Bn with Rs. 32.2 Bn added during the quarter. 60% of the book has been retained for more than five years, above the industry average of 24%.
- The SIP book has grown from Rs. 6.5 Bn/month (annualized flow of Rs. 78 Bn) in Jan '22 to 11.2 Bn/month (annualized flow of Rs. 134 Bn) in Mar '23.
- B30 AUM stands at Rs. 556.8 Bn, increased by 16.4% YoY. This segment forms 19% of Nippon's AUM compared to 17% for the industry. Retail asset contribute 29% to AUM compared to 25% for industry average. In Individual AUM, mix of retail and HNI is a Rs. 1620 Bn, an increase of 17% YoY and this segment contributes ~56% to total MF AUM.
- Unique customers have increased from 12.0 Mn in Mar-22 to 13.5 Mn in Mar-23.

Non MF Business

- Offshore AUM has declined by 5.2% during the year as existing schemes matured and new fund launches got delayed.
- In Non MF business, almost Rs. 600 Bn assets is government mandate for postal life insurance, where yield is very low. In PMS and AIF, Nippon earns a yield of 100 bps and in offshore business around 33-67 bps.

Others

- On recent tax change on debt schemes, debt flows have remained unaffected for short investment of less than one year and inflows in debt schemes in Apr 2023 for the industry more or less similar to last year.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Net Sales	10,621	13,066	13,498	15,202	17,733
Growth %	-12%	23%	3%	13%	17%
Employee Expenses	2,713	2,903	3,004	3,335	3,701
Other Expenses	2,333	2,261	2,547	2,478	2,837
EBITDA	5,575	7,902	7,947	9,389	11,195
Growth %	9%	42%	1%	18%	19%
Margin%	52%	60%	59%	62%	63%
Depreciation	333	272	298	314	319
EBIT	5,243	7,630	7,649	9,075	10,876
Growth %	9%	46%	0%	19%	20%
Margin%	49%	58%	57%	60%	61%
Interest Paid	44	38	40	40	40
Other Income & exceptional	3,572	2,295	1,668	1,716	1,776
PBT	8,770	9,887	9,277	10,751	12,612
Tax	1,976	2,453	2,048	2,688	3,153
PAT	6,794	7,434	7,229	8,063	9,459
Others (Minorities, Associates)	9	8	4	4	4
Net Profit	6,803	7,442	7,233	8,067	9,463
Growth %	64%	9%	-3%	12%	17%
Margin%	64%	57%	54%	53%	15550%
Shares (Mn)	616.5	622.0	622.0	622.0	622.0
EPS	11.04	11.96	11.63	12.97	15.21

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Cash, Cash equivalents & Bank	3,606	3,384	2,727	4,076	5,273
Current Investments	0	0	0	0	0
Debtors	459	754	969	760	886
Inventory	0	0	0	0	0
Short Term Loans & Advances	96	91	91	91	91
Other Current Assets	788	877	877	877	877
Total Current Assets	4,950	5,107	4,665	5,804	7,128
Net Block & CWIP	3,021	2,961	3,073	2,511	2,254
Long Term Investments	25,500	29,417	30,231	30,235	30,239
Other Non-current Assets	452	481	481	481	481
Total Assets	33,922	37,965	38,449	39,031	40,102
Creditors	629	560	662	746	870
Provision	87	36	36	36	36
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	1,655	1,684	1,703	1,703	1,703
Total Current Liabilities	2,371	2,280	2,401	2,485	2,609
Long Term Debt	0	0	0	0	0
Deffered Tax Liabilities	396	782	782	782	782
Other Long Term Liabilities	147	118	113	113	113
Total Non Current Liabilities	543	899	895	895	895
Paid-up Capital	6,165	6,220	6,232	6,232	6,232
Reserves & Surplus	24,844	28,566	28,922	29,420	30,366
Shareholders' Equity	31,009	34,786	35,154	35,652	36,598
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	33,922	37,965	38,449	39,031	40,102

Source: Company, Keynote Capitals Ltd Estimates

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	8,770	9,887	9,277	10,751	12,612
Adjustments	-2,773	-1,590	-1,105	-1,362	-1,417
Change in Working Capital	303	-411	-640	293	-2
Total Tax Paid	-1,740	-2,090	-1,692	-2,688	-3,153
Cash flow from operating Activities	4,560	5,796	5,841	6,994	8,040
Net Capital Expenditure	-196	-68	-102	-61	-62
Change in investments	-4,196	-1,397	793	0	0
Other investing activities	377	220	318	1,716	1,776
Cash flow from investing activities	-4,016	-1,245	1,009	1,655	1,714
Equity raised / (repaid)	929	1225.5	256.7	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	-3,063	-5,263	-7,161	-7,261	-8,516
Other financing activities	-257	-221	-212	-40	-40
Cash flow from financing activities	-2,391	-4,259	-7,117	-7,300	-8,556
Net Change in cash	-1,848	291	-267	1,349	1,197

Key Ratios

	FY21	FY22	FY23	FY24E	FY25E
Per Share Data					
EPS	11	12	12	13	15
Growth %	8%	-3%	12%	17%	17%
Book Value Per Share	50	56	57	58	59
Return Ratios					
Return on Assets (%)	22%	21%	19%	21%	24%
Return on Equity (%)	24%	23%	21%	23%	26%
Return on Capital Employed (%)	25%	24%	22%	23%	26%
Operating Metrics					
Average QAAUM (in Bn)	2.1	2.7	2.9	3.2	3.8
Revenue Yield (in Bps)	31.4	38.9	37.1	37.0	37.0
Operating Profit Yield (in Bps)	27.1	29.5	27.6	29.0	29.4
PAT Yield (in Bps)	33.1	27.8	25.1	24.9	24.9
AQAUM Mix%					
Equity	40.8%	42.1%	45.3%	46.2%	46.5%
ETF	16.3%	19.7%	23.9%	25.7%	26.5%
Debt	27.3%	22.6%	13.8%	11.0%	10.6%
Liquid	15.6%	15.5%	17.1%	17.1%	16.5%
Valuation					
PE (x)	30.7	29.1	21.5	19.3	16.4
Annual QAAUM/Mcap (x)	6.2%	6.4%	4.5%	4.0%	3.4%
Earnings Yield (%)	3.3%	3.4%	4.7%	5.2%	6.1%
Price to Sales (x)	19.6	16.5	12.2	10.9	9.3
Price to Book (x)	6.7	6.2	4.7	4.6	4.5
EV/EBITDA (x)	36.8	26.9	20.4	17.2	14.5
EV/Sales (x)	19.3	16.3	12.0	10.6	9.1

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
27 th July 2022	BUY	285	+44.2%
1 st August 2022	BUY	282	+45.7%
20 th October 2022	BUY	269	+38.6%
31 st January 2023	BUY	250	+51.6%
27 th April 2023	BUY	237	+26.5%

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd./Rating & Fair value under Review/Keynote Capitals Ltd. has suspended coverage

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